

VZCZCXRO8641
PP RUEHAST RUEHCI RUEHDBU RUEHLH RUEHNEH RUEHPW
DE RUEHBI #0184/01 1271325
ZNR UUUUU ZZH
P 071325Z MAY 09
FM AMCONSUL MUMBAI
TO RUEHC/SECSTATE WASHDC PRIORITY 7164
INFO RUEHRC/DEPT OF AGRICULTURE USD FAS WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEAIIA/CIA WASHDC
RHEHAAA/NSC WASHINGTON DC
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 8397
RUEHCI/AMCONSUL KOLKATA PRIORITY 1835
RUEHCG/AMCONSUL CHENNAI PRIORITY 2044
RUEHBI/AMCONSUL MUMBAI PRIORITY 2356

UNCLAS SECTION 01 OF 05 MUMBAI 000184

SENSITIVE
SIPDIS

STATE PLEASE PASS TO USTR

E.O. 12958: N/A

TAGS: [EAGR](#) [EAID](#) [ECON](#) [ELAB](#) [PGOV](#) [SOCI](#) [IN](#)

SUBJECT: DROPPING MONEY FROM A HELICOPTER: " WILL UPA AGRICULTURE
DEVELOPMENT PROGRAMS MAKE A DIFFERENCE TO VOTERS IN WESTERN INDIA?"

REF: A. MUMBAI 0153
[1](#)B. NEW DELHI 572

MUMBAI 00000184 001.2 OF 005

Summary: 1. (SBU) The Congress-led United Progressive Alliance government's initiative to build rural infrastructure through the Bharat Nirman (BN) program and provide rural employment through the National Rural Employment Guarantee Act (NREGA) are two of its flagship national development programs. These programs were specifically designed to provide badly-needed infrastructure and off-season employment to underdeveloped agricultural regions. Agricultural researchers and experts in Maharashtra largely applauded the efforts behind the programs, but argued that the impact and implementation of both programs has been spotty and uneven across the states of western India. With limited trained manpower, differing priorities, and numerous avenues for diverting funds, these massive cash transfers to the states pose significant challenges of implementation and monitoring. Indeed, the difficulties in ensuring that the benefits of central government programs will actually reach the needy has led previous governments to rely on wasteful subsidies - such as oil or fertilizer - or the provision of free inputs - such as free electricity or water - instead of more targeted programs. Nevertheless, at the very minimum, the NREGA and BN programs have at least provided badly-needed rural infrastructure, eased the dependency pressure on agriculture, and resulted in income transfers to rural India. These programs have also made some headway in India's attempts to "reach every citizen" to provide tailored development benefits. Whether voters will credit the Congress and the UPA for these gains will likely vary from state to state. The two states that have used the NREGA the most - Madhya Pradesh and Chhattisgarh - are also in the hands of the opposition Bharatiya Janata Party, whose leaders are equally eager to take credit for their more successful implementation of UPA programs. End Summary.

Progress of Western India in Implementing Government's Bharat
Nirman to Improve Rural Infrastructure

12. (U) In 2005, the current Congress-led United Progressive Alliance (UPA) government launched the Bharat Nirman (BN) program, an asset-creating plan for rural India with six components - roads, power, drinking water supply, housing, telecom and irrigation. The objective of the plan was to provide improved livelihoods and living conditions for rural India to enable equitable and inclusive growth. This time-bound plan for developing rural infrastructure was originally scheduled to be completed in 2009, but has been extended to 2011 due to implementation delays. According to the Ministry for Rural Development, the total estimated investment for achieving the various program components of BN is USD 35 billion, although the last three years' budgets together have provided only \$17 billion.

13. (U) According to state-level data submitted to the Ministry for Rural Development, the western India states comprising Maharashtra, Gujarat, Madhya Pradesh (MP), and Chhattisgarh, like the rest of India, performed exceedingly well in the rural housing, telecom, and safe drinking water components of BN. While the achievement of the other BN program components was more modest, their comparative performance in road construction and irrigation was still better than the all-India achievement rate. Western India states achieved 65 percent of their target for road construction, as against the national achievement rate of 40 percent. Gujarat surpassed its targets by 24 percent, while the remaining three states achieved at least half of their targets for road construction. In irrigation, the performance was more varied; Maharashtra and Chhattisgarh achieved over 60 percent of their targets for creating irrigation potential, while Gujarat and MP met less than half. (Note: Agricultural

MUMBAI 00000184 002.2 OF 005

researcher Ajay Dandekar claimed that Gujarat's poor performance in improving irrigation under Bharat Nirman was because most of the state's irrigation projects were community owned. End Note). Nationally, half of irrigation targets had been met as of March 2008, with an additional irrigation potential of 5.3 million hectares created, short of the targeted 10 million hectares.

14. (U) Notwithstanding their good performance in road and irrigation development, western India states faltered in providing rural electrification to un-electrified villages and Below Poverty Line (BPL) families either through electric grid connectivity or alternative technologies. Maharashtra did not electrify even one of the 6 targeted villages, while MP and Chhattisgarh electrified 71 and 45 villages out of 790 and 750 targeted villages, respectively. (Note: According to official statistics, Maharashtra and Gujarat already have near-100 percent rural electrification rates. However, a village is deemed to be electrified if electricity is used within its boundary for any purpose and if 10 percent of the households in the village receive electricity, a very modest standard. End Note). In comparison, Uttar Pradesh, often cited as one of the worst-governed states, was the top performer for rural electrification. Uttar Pradesh electrified 90 percent of the targeted 30,802 villages, and provided electric connections to 61 percent of BPL households. Western India states, in comparison, could barely cover 20 percent of BPL households targeted for electrification. Uttar Pradesh also met 84 percent of its road construction target and was one of the few states to exceed its irrigation target.

15. (U) The National Rural Employment Guarantee Act (NREGA) was passed by the UPA government in September 2005 to provide livelihood security in rural areas (ref B). The act, launched in February 2006, guarantees 100 days of wage employment in a financial year (April-March) to a rural household whose members volunteer to do unskilled manual work. According to the Ministry of Rural Development, the NREGA provided employment to 96 million households out of a total of 98 million households who demanded employment from 2006-2009. The nationwide NREGA employees worked on a total of 5 million projects involving a total expenditure of USD 11.3 billion. Around one-fifth of NREG employees came from the four western India states of Maharashtra, Gujarat, MP, and Chhattisgarh. The NREGA employees of these states developed, or are in the process of developing, over a million projects in their respective states at a total cost of USD 2.4 billion. MP was one of the "top national employers," with 12 million NREGA employees working on 365,677 projects at a total cost of USD 1.6 billion, according to national data. MP, along with the neighboring states of Chhattisgarh and Rajasthan, led in terms of the number of person-days of employment provided per rural household. In contrast, person-days of NREGA employment per rural households were low in Maharashtra and Gujarat. However, Jean Dreze, a social scientist considered the "father" of the NREGA, noted that the accuracy of official NREGA employment data is questionable and requires further scrutiny.

16. (U) The Comptroller & Auditor General's (CAG) 2006-07 performance audit on the NREGA also listed several procedural and financial irregularities in the implementation of the NREG program. (Note: This was the first year that the program was implemented, so many of the administrative inefficiencies observed may have since been addressed. End Note.) According to the CAG report, Maharashtra missed its employment and work targets by the widest margins of any state in 2006-07. Gujarat

MUMBAI 00000184 003.2 OF 005

and MP did not even prepare an annual plan for 2006-07. The audit report notes that "the absence of documented annual plans affects the ability to meet demand for employment as there is no slate of projects readily available for timely approval." (Note: Maharashtra introduced a program similar to NREGA in the 1970s, which agricultural experts claimed was the model for NREGA and had worked relatively better than other agricultural development programs of its time. End Note.)

17. (U) The CAG report observed that workers in some districts of Maharashtra, MP, and Chhattisgarh received wages below the state's prevailing minimum wage rate. The audit also found that workers in Gujarat, MP and Chhattisgarh were not paid on time, and were not compensated for delayed payments. The CAG noted that "non-payment of minimum wages and delayed payment of wages is illegal and defeats NREG's objectives of providing livelihood security." The CAG audit also found that the average person-days provided to each household who demanded work ranged from 36 to 51 days in Maharashtra, and the average wage ranged from 16 cents to USD 3.7 per day in the three audited districts in the state. In MP, the full guaranteed 100 days of employment was provided to only 19 percent of the households demanding employment. Evidence of tampering of the employment muster and fraudulent employment was witnessed in audited districts of both MP and Chhattisgarh. A subsequent study in 2007 conducted by Dreze in co-ordination with the G. B. Pant Institute of Social Sciences found that administrative corruption and "leakages" in the audited districts of Chhattisgarh was lower under the NREGA than the National Food for Work program of 2005, which has since been merged with the NREGA.

18. (U) Agricultural researchers and experts in Maharashtra admitted that the NREGA suffered from administrative inefficiency, corruption and leakages like most other government-sponsored programs. Nonetheless, they described the program as "good" in conception, intention, and design, with a high achievement rate in terms of employment provided, as compared to other rural development programs. Veena Mishra, the Chief Economist of Mahindra & Mahindra, praised the NREGA's aims to provide a social security net for the unemployed in rural India and offer an alternative to agricultural employment. She believes that the NREGA empowers the rural sector and makes them aware of their rights for demanding good governance. Rahul Sharma, Head of Rural Information & Insights for Mahindra & Mahindra, pointed out that many of the eligible jobs under the NREGA overlap with the government's BN rural infrastructure development program. NREGA employment has, therefore, become a key enabler to achieve the targets proposed under the government's BN, he argued. (Note: Contrary to Sharma's observations, the Director of the NREGA in the Ministry for Rural Development denied the connection between Bharat Nirman and the NREGA in a meeting with Delhi Econoff. End Note). Sharma noted that the NREGA is a good "learning curve" for future rural development programs.

19. (SBU) S. Chandrasekhar, researcher at the Indira Gandhi Institute for Development Research (IGIDR) believes that the NREGA has ushered in "rights-based" development. He noted that unlike previous wage employment programs, the NREGA provides a statutory guarantee of wage employment. A person registering under the NREGA who does not get a job within fifteen days, is entitled to unemployment allowance under the act. V. Shunmugam, Chief Economist of the Multi Commodity Exchange (MCX), noted that NREGA jobs result in the creation of productive assets like badly-needed rural infrastructure.

MUMBAI 00000184 004.2 OF 005

110. (SBU) One negative outcome of the NREGA, Mishra explained, was that it diverts labor from agriculture and has driven up the agriculture wage rate in some states. (Note: This is an unintentional consequence of the NREGA; the program was designed to supplement agricultural incomes during off-seasons and not to substitute agricultural labor during peak season. End Note). Many states are paying NREGA workers more than the state's prevailing minimum wage rate. Labor-deficient states like Punjab and Haryana are, therefore, facing a shortage of agricultural wage labor migrants from Bihar and other neighboring states, she noted. A section of small and medium-sized farmers in the Wardha district of Vidharbha told ConGenoff that the NREGA was "hurting" their farming operations by driving up the agricultural wage rate, and depriving them of agricultural workers during peak farming season. Ganesh Kumar, agricultural researcher at the IGIDR, conceded that while the NREGA was designed as a risk protection mechanism, it was creating supply pressures in local labor markets. MCX's Shunmugam pointed out that the alternative rural employment opportunity provided by the NREGA reduces rural urban distress migration and, consequently, lessens the population pressure in urban areas. However, IGIDR's Chandrasekhar disagreed, claiming that intra-state rural to rural migration comprised 80 percent of total migration within India. Thus, the NREGA is more likely to displace agricultural labor within each state, he concluded.

¶11. (SBU) Mishra also expressed concern that the NREGA could devolve into a money-spinning and rent-seeking opportunity for politicians in the future. (Note: During a visit to Chhattisgarh in 2007, ConGenoff heard that local bureaucrats demanded Rs.10 (around 20 cents) before registering the unemployed under NREGA. End Note). Mishra warned that the NREGA has become so politically entrenched that it cannot be dismantled in the future, even when not needed. Sharma concurred and opined that since many NREGA jobs overlap with BN programs which are scheduled to end in 2011, the future viability of the NREGA without BN was questionable. (Note: The Ministry of Rural Development has designed these programs independently. End note.)

Will These Programs Help the Congress at the Ballot Box?

¶12. (SBU) The Congress obviously hopes that rural voters will credit the party and its local politicians with the new-found income streams and greater attention to rural infrastructure. In the case of western India, however, three of the four major states - Gujarat, MP, and Chhattisgarh -- are run by BJP governments who have overseen the programs' implementation. In the case of MP and Chhattisgarh, an estimated 24 and 30 percent of the rural population, respectively, found employment through NREGA work. In contrast, in Gujarat and Maharashtra, less than four percent of the rural population registered under the NREGA to request work. There are several possible explanations for these differences. First, as relatively poorer states with fewer non-agricultural employment opportunities, MP and Chhattisgarh would likely have much greater demand for NREGA employment. Maharashtra and Gujarat, as relatively more prosperous states with many non-agricultural employment opportunities, would have correspondingly less demand. Therefore, voters in Gujarat and Maharashtra are far less likely to be impressed with these Congress programs, and the implementation of them by their states.

¶13. (SBU) Second, commentators agree that governance in both MP and Chhattisgarh has improved under the current BJP governments, which have made better use of programs like these. In this case, however, these governments are likely to take credit for job creation and infrastructure projects implemented under the

MUMBAI 00000184 005.2 OF 005

BN and NREGA programs. Voters may not be aware of which government - at which level - has proposed, created, or implemented the programs from which they are benefitting. Nevertheless, to the extent that voters do know, the Congress is likely to benefit in MP and Chhattisgarh, where the party has huge electoral deficits to overcome.

Comment: How Do You Reach Every Citizen?

¶14. (SBU) Like many government-sponsored programs, both the BN program and the NREGA suffer from weak administration, spotty implementation, and leakages and diversions in Western India. True validation of the NREGA's success requires more comprehensive data on rural unemployment to indicate each Indian state's relative need for an employment guarantee program in the absence of other fruitful means of employment. Nonetheless, national data shows that BN and NREGA have resulted in asset creation and income transfers to rural India. Labor shortages in agriculture and rising agricultural wage rates are

unintentional consequences of the NREGA, and often cited by critics of the program. However, agricultural growth has been stymied by poor government policies, like maintaining low commodity prices to ensure food security for the poor and the land ceiling act to prevent the concentration of land in the hands of a few, and continued underinvestment in rural infrastructure, among other reasons. Farm development programs, increased and widespread ag-extension services, technological innovation to boost productivity yields, along with agricultural policy reform, are central to raising farm incomes, and not low agricultural labor rates. By inadvertently offering an alternative to agricultural employment, the NREGA reduces the dependency on agriculture, and along with the BN program, creates badly-needed rural infrastructure that benefits the farmers.

¶15. (SBU) The challenge for any Indian government is for its development programs to reach the individuals and families who need them most, whether rural or urban. Due to corruption, poor administration, and apathy, hundreds of millions of Indians are unable to access the very basics of identity and individuality - ration cards, voting cards, BPL cards, and bank accounts. In addition, the delivery of some of the most important social services - sanitation and health, irrigation, agriculture, potable water, roads, and schools - are the responsibility of the states, which have been consistently low or non-performers (with a few exceptions). The Indian government knows, roughly, how many people live in India, and who should be the beneficiaries of assistance programs, but special interests have stymied most efforts to reform subsidy programs.

¶16. (SBU) Therefore, successive Indian governments have continued wasteful subsidy and free input programs to cover the widest possible swath of people, in the knowledge that the wealthiest - transport owners, big farmers, and fertilizer producers - will gain proportionally more than their poorer neighbors. These programs are akin to dropping money from a helicopter; the tallest, ablest, and strongest will gather the most money, but the weakest will get some of the money, though far less than they need. With so many ways for development funds to be misused and diverted in India's notoriously corrupt bureaucratic and political system, dropping money from a helicopter may be the best the Indian government can do at this time. However, the central and some state governments are now pioneering "smart cards", "mobile phone transfers, and other technological innovations to better identify and reach each citizen to ensure they receive the benefits they are entitled to. The NREGA represents a more ambitious attempt to use targeted development programs to benefit needy groups, an approach that may be expanded into new areas should the UPA return to power. End Comment.

FOLMSBEE